

TESTIMONY OF UNDERSECRETARY OF DEFENSE E. C. "PETE" ALDRIDGE  
BEFORE THE U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON SMALL BUSINESS  
MAY 15, 2002

Mr. Chairman and Members of the Committee:

I want to speak to you today about the Department of Defense (DoD) and its procurement policies within the small business arena. Accompanying me today is Frank Ramos, the Director of the DoD Small and Disadvantaged Business Utilization office. Director Ramos is my point person on small business policy.

We at the DoD consider small business to be a high priority. The very fact that approximately 88% of all DoD prime contractors are small businesses demonstrates how important the small business world is to this Department. Additionally, our dependence on small business is increasing; in FY 2001 the number of small businesses receiving contract awards grew by 1,825 – an increase of 8.2% over FY 2000. Of these 1,825 additional firms, 584 were owned by women and 355 were located in historically underutilized business zones (HUBZones). We exceeded the statutory goal of 5% contracting with small disadvantaged businesses (SDBs), spending 5.7% of our prime contracting dollars on purchases from SDBs. Small businesses received over \$50 billion of DoD procurement dollars last year, alone. The DoD regards the contributions of small business as critical and invaluable.

There has never been a more vital need for small business support within the DoD. Neither this Department nor our nation could have recovered from the shocking events of September 11<sup>th</sup> so quickly and effectively without the small business community. Small businesses provided the critical surge capacity the DoD needed to begin rebuilding the Pentagon and take on the task of fighting terrorism. These business owners immediately responded to a broad agency announcement issued by my office for new ideas to counter this terrorist induced perturbation. Later I will cite other instances of small businesses answering the call.

In support of Secretary Rumsfeld's Transformation, I have established five goals for the acquisition community. These goals contribute directly to those set forth by the President and Secretary of Defense. One of my goals is to improve the health of the industrial base. Included in that goal is the development of qualified small businesses as prime contractors and subcontractors, recognizing that they are a key part of our overall Defense industrial base. They have great ideas, innovative technology, and can respond to our needs with flexibility, speed, and agility.

To ensure achievement of this goal, I established the Small Business Reinvention Program.<sup>1</sup> My highly challenging policy assigns responsibility and accountability for the Program at the most senior levels within DoD and includes solid metrics for gauging success. Each military department and defense agency is responsible for annual small

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<sup>1</sup> Mr. Aldridge memo to secretaries of the military departments and directors of defense agencies on "Small Business Program Reinvention" dated May 16, 2001. Available at <[www.sadbu.com](http://www.sadbu.com)>.

business improvement plans. These plans detail special initiatives unique to each DoD component that will enhance small business participation. Each DoD component has targets, and performance will be monitored. Under this initiative, the secretaries of the military departments and directors of the defense agencies will report semi-annually to me and I will inform the Deputy Secretary of Defense on their performance against the improvement plans and targets.

It is important that we stay in touch with the concerns of the small business community that supports our requirements. I have, consequently, tasked Director Ramos to establish small business forums. He and his staff have already met with a Wichita, Kansas group of small businesses that produce aircraft components. He has strategized with women owned business leaders, has brainstormed with Native Americans and, since coming to the DoD, has represented the Secretary of Defense on the Board of Directors of the National Veterans Business Development Corporation. These forums identify prime and subcontracting barriers enabling me to discuss and develop recommended solutions with department leadership and the chief executive officers of the major defense firms. Additionally, we appreciate the support from the Small Business Administration and we look forward to working with them in the future.

The Army, Navy, Air Force and defense agencies small business offices are also doing their part to help the Department meet its goals. They, along with over 500 small business specialists across the nation, are my means to transform the small business acquisition culture in the DoD. The Department's specialists will foster a cultural shift in

the attitude of the acquisition workforce towards small business through new teaching modules. Mr. Ramos, in partnership with the Defense Acquisition University, is creating the first small business training module for executives and program managers. These new modules will explain why the Department's acquisition workforce should value the contributions of small business. Future training initiatives will focus on improving the use of Historically Black Colleges and Universities / Minority Institutions (HBCU/MIs) and we intend to reinvigorate training about historically underutilized business zones (HUBZones) – including Native American reservations which are predominately located in HUBZones. They are also developing training modules about contracting with women-owned and Service-disabled veteran-owned small businesses.

I am sensitive to the bundling<sup>2</sup> concerns of the President, the Congress and the small business community. The DoD, within the past month, conducted an analysis comparing dollars expended on bundled contracts in FY 2001 to the total DoD contract dollars. The analysis indicates that only two-tenths of one percent (0.2%) of DoD contract dollars in FY 2001 was bundled. We are working with the President's Office of Management and Budget to prepare a Federal Government strategy for unbundling contracts wherever practicable.

Contract bundling is a subset of contract consolidation. In some instances DoD restructures mission requirements as a means to gain efficiencies or to realign its

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<sup>2</sup> Bundling is defined in the Small Business Reauthorization Act of 1997 (P.L. 105-135) as the combination of previously separate requirements into a single contract that is no longer suitable for award to small businesses

organization to meet mission demands. When an organization combines requirements previously performed under separate contracts into a single larger contract, it is a consolidated contract. If the previous smaller contracts were suitable for award to small business and the consolidated contract is unsuitable for award to small business, it is a bundled contract.

Reports by the General Accounting Office (GAO)<sup>3</sup> suggest that contract consolidation has not had a major impact on the health of the small business industrial base. One GAO report on government-wide procurement trends in the 1990s found that despite an overall decline in contract purchases between FY 1993 and FY 1999, the share to small businesses has increased. Small businesses received a higher share of expenditures on new contracts worth over \$25,000 in FY 1999 than in FY 1993. In another recent GAO report<sup>4</sup> on construction contracts and the potential impact of consolidations on small business, the GAO found that: "Overall data on military construction contract awards to small businesses revealed that small businesses are generally continuing to win work and that their ability to compete is not being impaired. Specifically, the share of awards going to small businesses increased from 25 percent in 1997 to 32 percent in 2000."

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<sup>3</sup> Report GAO-01-119 on "SMALL BUSINESS Trends in Federal Procurement in the 1990s" of January 2001.

<sup>4</sup> Report GAO-01-746 on "CONTRACT MANAGEMENT Small Businesses Continue to Win Construction Contracts" of June 2001.

To further investigate concerns about consolidated contracts, DoD initiated an internal review. Logistics Management Institute (LMI)<sup>5</sup> examined data available from the Defense Contract Action Data System for FY 1994 through FY 1999 and found no evidence that the average value of the individual awards to businesses has increased over the period, such as would be expected with contract consolidations. Although LMI was able to study only a small sample of contracts, the LMI conclusions support the GAO conclusions. LMI reported that: "The Dollar value of contract actions awarded to small businesses has remained at about 21 to 23 percent, with no discernable negative trend. For awards over \$25,000, where most of the dollar value occurs, the dollar value awarded to small business has remained relatively constant and the number of awards to small businesses has also stayed nearly constant."

According to GAO<sup>6</sup>, the Flexible Acquisition and Sustainment Tool (FAST) is successfully consolidating requirements but avoiding bundling. FAST provides a multiple-award task-ordering capability for procurement of weapon system support services and parts. The program is designed to meet three overarching goals: 1) flexibility and speed; 2) reduce cost; and 3) increase dollars awarded to small businesses.

Six contractors were selected for the FAST multiple-year, Indefinite Delivery/Indefinite Quantity (ID/IQ) contract. Three of these contractors were large businesses and three were small businesses. As of 7 May 2002<sup>7</sup>, the three small

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<sup>5</sup> Logistics Management Institute Report AQ001R1 on "Case Studies in DoD Contract Consolidations A Study for the Office of Small and Disadvantaged Business Utilization" of December 2000.

<sup>6</sup> See GAO Decision B-286817, 22 Feb 2001

<sup>7</sup> Senior Oversight Panel Briefing 7 May 2002

businesses had been awarded \$41.5 million (66%) as opposed to the \$21.1 million (34%) which went to the three large businesses. Over the 7 year life of the contracts, these FAST prime contract awards combine for a potential value of \$7.441 billion.

I want to emphasize that the Department is committed to small business and, as required by law, before we bundle requirements they must be properly justified. I issued a memorandum<sup>8</sup> last January re-emphasizing the requirements of the Federal Acquisition Regulation regarding bundling. The memo also reiterates my expectation that acquisition strategies must facilitate small business participation to the maximum extent practicable. The memorandum transmitted a Benefit Analysis Guide that includes practical advice on avoiding bundling and on mitigating adverse impacts on small businesses from bundled acquisitions. This guide outlines the procedures for performing the required benefit analysis. These documents were developed to ensure that appropriate emphasis is placed on avoiding unjustifiable bundling in accordance with the statute and regulation.

The previously stated statistics tell of our success but fail to fully illuminate the immeasurable contributions small businesses have made in the healing of our nation since September 11<sup>th</sup>. Forty-three percent (43%) of the prime contractors involved in the Pentagon renovation are small businesses. These businesses, ranging in size and varying in trade, have recovered approximately 300,000 square feet of office space, enabling 1,500 of the 4,600 displaced DoD staff to return to a fully operational workplace. To accomplish such a feat, alternating shifts of small business employees have worked

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<sup>8</sup> Memorandum available at [www.sadbu.com](http://www.sadbu.com).

around the clock, everyday of the week. Over the last 8 months, employees of small business firms have displayed enormous dedication and patriotism.

While small business owners here were helping restore the Pentagon, other small business owners were helping the war effort in other ways throughout the country.

One month after the Pentagon was attacked, the Secretary of Defense asked for help in combating terrorism. Through a Broad Agency Announcement, my office asked companies and educational institutions to submit concepts which can be developed and fielded within 18 months. The response was overwhelming. More than 12,500 ideas were sent in addressing ways to defeat difficult targets, conduct protracted operations in remote areas and develop countermeasures to weapons of mass destruction. Approximately one quarter of the best ideas that are being evaluated for further study were from small businesses or HBCU/MIs. Women, minority and veteran owned small businesses are well represented among the proposals now being evaluated.

Other small businesses already have unique concepts that address the war on terror. Two such companies are discussed below.

Foam Matrix is an ISO 9000 certified small business, based in Inglewood, California. The company was founded as a surfboard supplier. In the pursuit of the perfect surfboard, Foam Matrix founder Kent Sherwood, created a composite foam which is incredibly strong, ultra-light and easily repairable. Initially used for his surfboards and



film set construction, his composite foam is now the main component in replacement the wings for the X-45 unmanned combat air vehicle. Due to the success of the X-45, Boeing, the manufacturer of the unmanned aircraft, has also tasked Foam Matrix with developing new replacement parts for the C-17 military transport plane.

Pacific Consultants, Exponent, Pemstar, Computer Sciences and Omega are a group of small businesses that have successfully come together to resurrect the Land Warrior program that a big business prime contractor had difficulty completing. The Land Warrior system original design was known as the "turtle shell" due to its overweight bulk. The original back-mounted computer system often prevented soldiers from moving quickly and freely. The system was so large that soldiers often got stuck on their backs, like a turtle, when they tried to roll. Thinking it was impossible to build a digital soldier, the program was restructured.

This team of small business engineers not only brought this program back to life in a matter of months and delivered the new product at half the price, they also produced it at a fraction of its original weight, now weighing a mere 12.75 pounds. The operating system went from complex military code to simple Microsoft 2000 software, enabling any soldier that grew up with a computer to use this new system with ease. Because of the ingenuity of the Land Warrior small business consortium, they were awarded the Land Warrior contract to make prototypes. These prototypes demonstrate capabilities that will make our warfighters more effective in the battle against terror.

DoD continually strives to enhance its overall small business performance, particularly to achieve the goals recently established for woman-owned small businesses, HUBZones, and service disabled veteran owned small business. There are positive trends. In Fiscal Year (FY) 2001, \$51.8 billion of DoD procurement spending went to small business firms, with \$28.3 billion of this going to small business prime contractors<sup>9</sup>. This marks the first time in its history that the DoD Small Business Procurement Program has surpassed the \$50.0 billion threshold.

I reaffirm the DoD's commitment to small business as a valuable and integral part of the defense industrial base. Thank you for the opportunity to appear here today.

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<sup>9</sup> Referenced from the WHS Services Directorate for Information Operations & Reports.